



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 24, 2003

### **H.R. 531**

**A bill to amend title XXI of the Social Security Act to extend the availability of allotments for fiscal years 1998 through 2001 under the State Children's Health Insurance Program (SCHIP)**

*As ordered reported by the House Committee on Energy and Commerce  
on June 19, 2003*

### **SUMMARY**

H.R. 531 would make several changes to the availability of allotments for the State Children's Health Insurance Program (SCHIP). The bill would make allotments for fiscal years 1998 through 2001 available for a longer period of time and change the way that they are allocated among states.

CBO estimates that H.R. 531 would increase direct spending by \$40 million in 2004 and \$855 million over the 2004-2013 period. The bill would have no effect on outlays in 2003. The bill would increase spending in the SCHIP program by almost \$1.7 billion over the 2004-2013 period by giving states more time to spend their SCHIP funds. By making more SCHIP funds available, the bill also would reduce the extent to which states would use Medicaid funds to offset shortfalls in SCHIP funding. As a result, CBO estimates that enacting the bill would reduce Medicaid outlays by \$830 million over the 2004-2013 period.

H.R. 531 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill would give states more time to spend unused SCHIP funds from their allotments for fiscal years 1998 through 2001. CBO estimates that state spending for SCHIP would increase by about \$720 million over the 2004-2013 period, and state spending for Medicaid would decline by about \$625 million over the same period.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 531 is shown in the following table. The costs of this legislation fall within budget function 550 (health). CBO's estimate assumes that H.R. 531 would be enacted before August 1, 2003.

By Fiscal Year, in Millions of Dollars											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>DIRECT SPENDING</b>											
SCHIP Spending Under Current Law											
Budget Authority	3,175	3,175	4,082	4,082	5,040	5,040	5,040	5,040	5,040	5,040	5,040
Estimated Outlays	4,518	4,885	4,721	4,689	5,024	5,203	5,186	5,340	5,446	5,465	5,443
Proposed Changes:											
SCHIP											
Estimated Budget Authority	1,259	1,350	5	0	0	0	0	0	0	0	0
Estimated Outlays	0	65	450	605	225	65	60	10	5	80	120
Medicaid <sup>a</sup>											
Estimated Budget Authority	0	-25	-220	-300	-110	-35	-30	-5	-5	-40	-60
Estimated Outlays	0	-25	-220	-300	-110	-35	-30	-5	-5	-40	-60
SCHIP Spending Under H.R. 531 <sup>a</sup>											
Estimated Budget Authority	4,434	4,525	4,087	4,082	5,040	5,040	5,040	5,040	5,040	5,040	5,040
Estimated Outlays	4,518	4,950	5,171	5,294	5,249	5,268	5,246	5,350	5,451	5,545	5,563

a. The figures for SCHIP spending under H.R. 531 do not include the bill's effects on Medicaid spending.

## BASIS OF ESTIMATE

The State Children's Health Insurance Program provides federal matching funds to states to provide health coverage to certain children—generally in families with incomes below 200 percent of the federal poverty level—who do not qualify for Medicaid and do not have private health coverage. States may provide this coverage by expanding their Medicaid programs, setting up a separate program, or a combination of the two. SCHIP began operation in 1998 and is authorized through 2007. CBO's baseline for later years follows

statutory rules and assumes funding at the 2007 level. (Specifically, section 257 of the Balanced Budget and Emergency Deficit Control Act requires that the baseline assume the continuation of certain expiring programs at the level "in effect immediately before its expiration.")

### **Availability of SCHIP Funds Under Current Law**

SCHIP gives each state an annual allotment that limits the amount of federal matching funds that the state can receive. States have three years to spend their allotments. At the end of the third year, the Secretary of Health and Human Services takes any unspent amounts and redistributes them to states that have spent their entire allotment. These redistributed funds are available for an additional year. After that, any unspent allotments expire.

The Congress enacted special rules for the 1998 and 1999 allotments as part of the Benefits Improvement and Protection Act of 2000 (BIPA). BIPA reduced the amount of unspent 1998 and 1999 funds that were redistributed to states that had spent their entire allotments, and allowed states that did not spend all of their funds within the three-year period to keep a portion of their allotments. BIPA also extended the availability of all funds from the 1998 and 1999 allotments through 2002.

### **Availability of SCHIP Funds Under H.R. 531**

H.R. 531 would change the availability of SCHIP allotments for fiscal years 1998 through 2001 in a number of ways. First, the bill would extend the availability of the 1998 and 1999 allotments through 2004. The allocation of those funds across states would not be affected.

For the 2000 and 2001 allotments, the bill would allow states that do not spend their entire allotment within the three-year period to keep half of the unspent amounts. The other half would be redistributed to states that have spent their entire allotments. H.R. 531 would extend the availability of all funds from the 2000 allotments through 2004 and the availability of all funds from the 2001 allotments through 2005.

### **How CBO Models SCHIP Spending**

CBO's primary focus in its baseline projections and estimates for legislation is SCHIP spending at the national level. Nevertheless, the program's complex financing structure—and its redistribution of unspent funds in particular—make it essential to account for variation in spending across states. Therefore, CBO models SCHIP spending by state using a blend

of state-specific and national data. These projections are meant to reflect the program's complexity given the limits of available data rather than provide precise spending estimates for each state.

Our model incorporates the allotments for each state that are published annually in the *Federal Register* and data on SCHIP spending from the Centers for Medicare and Medicaid Services (CMS). Spending data for prior years includes detail by state on the amounts spent from each allotment. For future years, CBO projects each state's allotment based on its share of total SCHIP allotments for the most recent year. (Total funding for the SCHIP allotments varies from year to year.) Our estimate of spending in 2003 and 2004 is based on estimates that the states have submitted to CMS. We project spending in later years by taking the 2004 amounts and adjusting them for population growth, inflation, and increased utilization. These adjustments are based on national averages and do not vary by state.

The spending projection described above approximates what SCHIP spending would be if funding for the program were open-ended, as in Medicaid. Since SCHIP funding is limited, CBO projects spending by limiting expenditures in each state to the amounts available from the allotments and any redistributions of unspent funds.

Since SCHIP allotments are available for three years, states typically have allotments from several years available at any one time. For example, this year a state could have funds from the 2001, 2002, and 2003 allotments available. (States that qualify for a redistribution also would have funds from the 2000 allotment available.) In line with CMS regulations, CBO assumes that states will spend their allotments in order—they will spend their 2001 allotment before spending any of their 2002 allotment, and so on. Redistributed funds are the only exception to this rule; CMS gave states some flexibility in spending redistributions from the 1998 and 1999 allotments, and CBO assumes that they would do so for future redistributions.

CMS has not announced how it will allocate unspent funds among states that qualify for a redistribution. Redistributions from the 1998 and 1999 allotments (the only ones that have happened so far) were based on the special rules enacted in BIPA. We assume that unspent funds will be redistributed among qualifying states based on their original allotment for that year.

As noted above, SCHIP spending in some states will be restricted by the availability of allotments. This will be increasingly prevalent after 2007, when CBO's baseline holds SCHIP funding constant at the 2007 level. In these cases, CBO assumes that states will offset some of the funding shortfall by expanding Medicaid eligibility. Doing so will allow states to receive additional matching funds, albeit at a lower match rate. (The average federal match rate is 70 percent in SCHIP, compared to 57 percent in Medicaid.) We assume that higher Medicaid spending would offset the full amount of any shortfall in SCHIP programs

that were implemented as Medicaid expansions (about 20 percent of total spending) because children in those programs are entitled to Medicaid if SCHIP funding is unavailable. CBO also assumes that half of any shortfall where SCHIP was implemented as a separate program (and children are not automatically entitled to Medicaid) would be offset by higher Medicaid spending.

### **Budgetary Effects of H.R. 531**

The provisions of H.R. 531 would increase the amount of budget authority in SCHIP by extending the availability of some allotments that would otherwise expire under current law. CBO estimates that the increases under the bill would total \$1.3 billion in 2003, \$1.4 billion in 2004, and \$5 million in 2005.

CBO estimates that enacting H.R. 531 would increase SCHIP outlays by \$65 million in 2004, and \$1.7 billion over the 2004-2013 period. The additional spending for most states would occur primarily in 2005, 2006, and 2007. Spending in earlier years would be relatively unaffected by the bill because states generally have sufficient allotments under current law to fund their programs in those years. However, the bill would let states fund their spending in those years by drawing more heavily on older allotments, such as those for 1998 and 1999. This would allow states to conserve their newer allotments and would lead to additional spending after 2004, when more states would experience funding shortfalls under current law.

By making allotments available for a longer period of time, H.R. 531 would lessen funding shortfalls in SCHIP and reduce states' use of Medicaid funding to offset them. In total, CBO estimates that the bill would reduce Medicaid spending by \$25 million in 2004 and \$830 million over the 2004-2013 period.

### **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

H.R. 531 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would give states more time to spend unused SCHIP funds from their allotments for fiscal years 1998 through 2001. CBO estimates that state spending for SCHIP would increase by about \$720 million over the 2004-2013 period, and state spending for Medicaid would decline by about \$625 million over the same period.

## **PREVIOUS CBO ESTIMATE**

On June 23, 2003, CBO issued an estimate for S. 312, as ordered reported by the Senate Finance Committee on June 12, 2003. The provisions in that bill are nearly identical to those in H.R. 531, with one exception. S. 312 also would allow certain states to spend a portion of their allotments for 1998 through 2001 on children with family incomes above 150 percent of the federal poverty level who are enrolled in Medicaid. CBO estimated that enacting S. 312 would increase direct spending by \$85 million in 2003, \$85 million in 2004, and \$975 million over the 2003-2013 period.

## **ESTIMATE PREPARED BY:**

Federal Costs: Eric Rollins and Jeanne De Sa  
Impact on State, Local, and Tribal Governments: Leo Lex  
Impact on the Private Sector: Kate Bloniarz

## **ESTIMATE APPROVED BY:**

Peter H. Fontaine  
Deputy Assistant Director for Budget Analysis